

APPENDIX A

**Settlement Agreement Between Southern California Edison Company
and the Office of Ratepayer Advocates**

**SETTLEMENT OF ISSUES RELATED TO THE APPLICATION OF
SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR
AUTHORIZATION TO RECOVER COSTS RECORDED IN THE
CATASTROPHIC EVENTS MEMORANDUM ACCOUNT – A.04-12-003
(SETTLEMENT AGREEMENT)**

Dated: **June 22, 2005**

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SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) FOR
AUTHORIZATION TO RECOVER COSTS RECORDED IN THE
CATASTROPHIC EVENTS MEMORANDUM ACCOUNT – A.04-12-003
(SETTLEMENT AGREEMENT)**

This Settlement Agreement (Agreement or Settlement Agreement) is entered into by and among the undersigned Parties hereto, with reference to the following:

1. Parties

The Parties to this Agreement are Southern California Edison Company (SCE) and the Office of Ratepayer Advocates (ORA) (referred to hereinafter collectively as Settlement Parties, Parties or individually as Party).

2. Recitals

- a. SCE is an investor-owned public utility and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC) with respect to providing electric service to its CPUC-jurisdictional retail customers.
- b. ORA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. Pursuant to Public Utilities Code Section 309.5(a), the ORA is directed to primarily consider the interests of residential and small commercial customers in revenue allocation and rate design matters.

3. **Background**

- a. On December 2, 2004, SCE filed and served the Application of Southern California Edison Company (U 338-E) for Authorization to Recover Costs Recorded in the Catastrophic Events Memorandum Account and its initial prepared testimony (Application). In the Application, SCE requested that the Commission (i) find reasonable the \$8.0 million of incremental Operation and Maintenance (O&M) expenses and the \$29.2 million of incremental capital expenditures SCE incurred in restoring service and rebuilding its fire-damaged infrastructure; and (ii) authorize the transfer of the recorded December 31, 2005 Catastrophic Events Memorandum Account (Firestorm CEMA) balance related to the firestorms, approximately \$15.929 million, including interest, to the Base Revenue Requirement Balancing Account (BRRBA) for recovery in rates.
- b. On January 7, 2005, both ORA and The Utility Reform Network (TURN) filed protests to the Application.
- c. SCE filed and served supplemental testimony on February 8, 2005 (Supplemental Testimony). The Supplemental Testimony removed all overhead costs from SCE's Firestorm CEMA request. The adjustments made in the Supplemental Testimony reduced SCE's Firestorm CEMA to \$15.694 million, as of December 31, 2005, a \$0.235 million reduction from the \$15.929 million included in its Application.

- d. ORA served its direct testimony on May 23, 2005. TURN did not serve any testimony. In its direct testimony, ORA proposed the following three disallowances to SCE's request:
 - i. A \$3.5 million reduction to capital plant additions based primarily on SCE's understatement of cost of removal and overstatement of capital plant additions;
 - ii. A \$427,916 reduction (\$270,939 to capital plant additions and \$156,977 to O&M expenses) based on SCE's inclusion of "normal" overtime labor costs; and
 - iii. A \$101,700 reduction to O&M expenses related to employee expenses.
- e. SCE served its rebuttal testimony on June 10, 2005 (Rebuttal Testimony). In the Rebuttal Testimony, SCE made a \$3.5 million reduction to capital plant additions based primarily on SCE's understatement of cost of removal and overstatement of capital plant additions.
- f. On June 7, 2005, SCE and ORA provided notice to all parties to the Application proceeding of their intent to conduct a telephonic conference on June 14, 2005 related to potential settlement of issues in the proceeding. The June 14 conference call was cancelled shortly before its scheduled time. Pursuant to Section 87 of the California Public Utilities Commission's Rules of Practice and Procedure (Rules), ALJ Long granted a shortened notice period for a second telephonic settlement conference which was held on June 22, 2005.

4. Agreement

In consideration of the mutual obligations, covenants and conditions contained herein, the Parties agree to the terms of this Agreement. Nothing in this Agreement shall be deemed to constitute an admission or an acceptance by any Party of any fact, principle, or position contained herein and this Agreement is subject to the limitations described in Section 10 with respect to the express limitation on precedent. The Parties, by signing this Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of the Agreement.

a. Terms of Settlement

SCE and ORA agree to make the following reductions to SCE's request:

1. A \$270,939 reduction to the capital plant additions used to calculate the incremental revenue requirement; and
2. A \$156,977 reduction to the O&M expenses included in the incremental revenue requirement calculation.

Based on these adjustments, SCE and ORA agree that the following amounts are the basis for determining entries to the Firestorm CEMA:

1. Incremental O&M costs in the amount of \$7.691 million; and
2. Incremental capital additions in the amount of \$19.990 million.

The resultant revenue requirement recorded in the Firestorm CEMA through April 2005 is \$11.8 million. Finally, SCE and

ORA agree that SCE will continue to record in the Firestorm CEMA the revenue requirement associated with the agreed upon capital additions, plus accrued interest, until the effective date of SCE's 2006 General Rate Case (GRC). Once the Commission issues a decision in SCE's 2006 GRC Phase 1 Proceeding, SCE will recover the recorded amounts in the Firestorm CEMA by transferring the balance to the Distribution Subaccount of the BRRBA.

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Table 1 below presents the changes made to SCE's Application request for capital plant additions and O&M expenses as a result of the adjustments made in SCE's Supplemental Testimony, Rebuttal Testimony and this Settlement Agreement. The update presented here includes recorded data through April 30, 2005.

Table 1
Updated Capital Additions and O&M Expense
(\$000)

	O&M	Capital Additions
1. Original Request (As of 10/31/04)	7,963.2	24,539.7
2. Adjustments	(113.8)	(886.7)
3. Revised Request	7,849.4	23,653.0
4. Updated Request (6/10/05) Rebuttal		
5. Cost of Removal Adjustment		(3,911.7)
6. Capital Additions After 10/31/04 1/		419.3
7. Net Additions Adjustment		(3,492.4)
8. Settlement Agreement Adjustments:		
9. "Normal" Overtime Adjustment	(157.0)	(270.9)
10. Total Updated Request	7,691.4	19,889.6

1/ In its December 2, 2004 testimony, SCE included a forecast of post-October 2004 capital additions in the amount of \$473,900.

SCE has updated the operation of its Firestorm CEMA through December 31, 2005 based on the adjustments presented in Table 1 above. Table 2 below summarizes the operation of the updated Firestorm CEMA through December 31, 2005.

TABLE 2 - SETTLEMENT AGREEMENT				
SOUTHERN CALIFORNIA EDISON COMPANY				
Catastrophic Event Memorandum Account (CEMA)				
Firestorm (\$000)				
	October 21, 2003 thru April 30, 2005 (Recorded)	May 1, 2005 thru December 31, 2005 (Forecast)	Total	
Line	O&M Cost Subaccount			
1	O&M Incremental Costs			
2	- SCE Labor	3,034	-	3,034
3	- Contractor	1,939	-	1,939
4	- Equipment/Transportation Rentals	777	-	777
5	- Materials/Tools/Supply Expenses	464	-	464
6	- Other	1,477	-	1,477
7	Total O&M Expenditures	7,691	-	7,691
	Capital Cost Subaccount			
8	Capital Costs:			
9	-Depreciation	1,028	541	1,569
10	-Taxes	862	475	1,337
11	-Return	2,010	913	2,923
12	Total Capital-Related Costs	3,901	1,929	5,829
13	Total Costs	11,592	1,929	13,521
14	Interest	231	313	543
		-		
15	Ending Balance - CEMA - Firestorm	11,823	2,241	14,064

5. Implementation of Agreement

Following the issuance of a final Commission decision approving this Agreement, SCE will transfer the recorded balance in the Firestorm CEMA to the distribution sub-account of the BRRBA upon the effective date of a Commission decision in Phase 1 of SCE's 2006 GRC.

6. Incorporation of Complete Agreement

This Agreement is to be treated as a complete package and not as a

collection of separate agreements on discrete issues. To accommodate the interests related to diverse issues, the Parties acknowledge that changes, concessions, or compromises by a Party resulted in changes, concessions, or compromises by the other Party. Consequently, the Parties agree to oppose any modification of this Agreement not agreed to by all Parties.

7. **Signature Date**

This Agreement shall become binding on the signature date.

8. **Regulatory Approval**

The Parties shall use their best efforts to obtain Commission approval of the Agreement. The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable, consistent with law and in the public interest.

9. **Compromise Of Disputed Claims**

This Agreement represents a compromise of disputed claims between the Parties. The Parties have reached this Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Parties assert that this Agreement is reasonable, consistent with law and in the public interest.

10. **Non Precedent**

Consistent with Rule 51.8 of the Rules, this Agreement is not precedential in any other proceeding before this Commission, except as expressly provided in this Agreement.

11. **Previous Communications**

The Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and supersedes all prior agreements, commitments, representation, and discussions between the Parties. In the event there is any conflict between the terms and scope of the Agreement and the terms and

scope of the accompanying motion for adoption of settlement agreement, the Agreement shall govern.

12. **Non Waiver**

None of the provisions of this Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

13. **Effect Of Subject Headings**

Subject headings in this Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

14. **Governing Law**

This Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

15. Number Of Originals

This Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

SOUTHERN CALIFORNIA EDISON COMPANY

By: /s/ MARICRUZ MENDOZA 6/22/2005

Title: Attorney

OFFICE OF RATEPAYER ADVOCATES

By: /s/ JAMES R. WUEHLER

Title: Principal Financial Examiner

(END OF APPENDIX A)